

# **UK Financial Regulation**

## **CeFA<sup>®</sup> and CeMAP<sup>®</sup> Module I Customer Service Professional (CSP) Certificate in Regulated Complaints Handling (CeRCH) 2008/09**

**These learning materials are up-to-date to 27 May 2008  
for examinations from 1 September 2008.**

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# **UK Financial Regulation**

**CeFA<sup>®</sup> and CeMAP<sup>®</sup> Module I  
Customer Service Professional (CSP)  
Certificate in Regulated  
Complaints Handling (CeRCH)  
2008/09**

**David Brighthouse**

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# Introduction to UK Financial Regulation

## Units 1 and 2

### Introduction to UK Financial Regulation learning materials

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UK Financial Regulation focuses on the financial services environment and the regulation surrounding the provision of financial services.

Although the module is entitled 'UK Financial Regulation', in reality its scope is much broader than that, beginning with a look at the finance industry generally and at the range of products available, as well as the regulatory regime under which financial institutions operate.

UK Financial Regulation forms a common initial module for two *ifs* qualifications: the Certificate for Financial Advisers (CeFA®) and the Certificate in Mortgage Advice and Practice (CeMAP®). UK Financial Regulation is also a core module within the *ifs*' Customer Service Professional (CSP) qualification and forms part of the Certificate in Regulated Complaints Handling (CeRCH).

Because it is a common module for the CeFA® and CeMAP®, UK Financial Regulation introduces a number of topics – particularly in relation to products – that will be dealt with in more detail in later modules of CeFA® and CeMAP® as appropriate. For this reason, we recommend that UK Financial Regulation is studied first, regardless of whether you intend to follow CeFA® or CeMAP® route to achieving your qualification.

This introduction comprises three parts as follows:

- 1) **Essential information:** to introduce you to the rules and regulations relating to your course of study. It provides advice on how to access the learning support available to you as well as updates to your learning

materials. This part also explains the additional learning materials available and how they can be best used in conjunction with one another to aid your studies.

- 2) **Module I overview – context and relevance:** explains the context and relevance of the UK Financial Regulation syllabus to the CeFA<sup>®</sup> and CeMAP<sup>®</sup> qualifications and, in particular, how this module will be of benefit to you when practicing in the financial services industry.
- 3) **Study guidance and assessment preparation:** describes how the study manual is structured, explains how you will be assessed and provides practical tips on how to approach your studies and examination.

# Essential information

## **The structure of CeFA<sup>®</sup> and CeMAP<sup>®</sup>**

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This study manual provides the subject knowledge relevant to the examinations for module 1 of the CeFA<sup>®</sup> and CeMAP<sup>®</sup> qualifications. All our study materials for CeFA<sup>®</sup> and CeMAP<sup>®</sup> underwent extensive revision following the consultation and review of exams in this area carried out under the auspices of the Financial Sector Skills Council of the Financial Services Authority during 2003 and 2004. This manual is relevant to examinations undertaken from 1 September 2007.

Module 1 is common to both qualifications, as well as the *ifs School of Finance Customer Service Professional Qualification*. Whether you intend to complete CeFA<sup>®</sup> or CeMAP<sup>®</sup>, the study materials for subsequent modules are specific to one qualification only. If you follow CeFA<sup>®</sup> there are three further examinations and with CeMAP<sup>®</sup> a further two. You will receive study material specific to each one upon registration.

The modules are divided into units as follows.

### **Module 1 (common module for CeFA<sup>®</sup> and CeMAP<sup>®</sup>) UK Financial Regulation**

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Unit 1 Introduction to Financial Services Environment and Products

Unit 2 UK Financial Services and Regulation

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## **CeMAP<sup>®</sup> Module 2 Mortgages**

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Unit 3 Mortgage Law, Policy, Practice and Markets

Unit 4 Mortgage Applications

Unit 5 Mortgage Payment Methods and Products

Unit 6 Mortgage Arrears and Post Completion

## **CeMAP<sup>®</sup> Synoptic exam (case study based)**

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## **CeFA<sup>®</sup> Module 2 Investment and Risks**

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Unit 3 Principles of Investment

Unit 4 Investment Products

## **CeFA<sup>®</sup> Module 3 Retirement Planning and Protection**

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Unit 5 Protection

Unit 6 Retirement Planning

## **CeFA<sup>®</sup> Synoptic Exam (case study based)**

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## **Customer Service Professional (CSP)**

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UK Financial Regulation is a compulsory module for CSP. To achieve the CSP qualification, students must complete UK Financial Regulation plus two other modules from the following list:

- ◆ Introduction to Effective Sales and Customer Service
- ◆ Introduction to Banking and Personal Lending
- ◆ Investments and Risks (also part of CeFA<sup>®</sup>)
- ◆ Mortgages (also part of CeMAP<sup>®</sup>)
- ◆ Personal Development and Team Management
- ◆ Regulated General Insurance
- ◆ Retirement Planning and Protection (also part of CeFA<sup>®</sup>)
- ◆ Supervising in a Regulated Environment
- ◆ Understanding the Contact Centre Environment

## **Certificate in Regulated Complaints Handling (CeRCH)**

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UK Financial Regulation is a compulsory module for the Certificate in Regulated Complaints Handling qualification. To achieve the CeRCH qualification, students must complete UK Financial Regulation plus the following two modules:

- ◆ Regulated Customer Care
- ◆ Regulated Complaints Handling.

Further information can be found at

**<http://www.ifslearning.ac.uk/qualifications/courses/csp.cfm>**.

## **Rules and regulations**

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For the rules and regulations governing the conduct of the examinations please refer to the **ifs** website:

**[www.ifslearning.ac.uk/qualifications/regulations\\_and\\_policy\\_forms](http://www.ifslearning.ac.uk/qualifications/regulations_and_policy_forms)**.

## **Syllabus**

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The syllabus for this module is printed within the study text at page XLV. Please ensure you familiarise yourself with it. Although the **ifs** has determined the number of units and modules required to complete our qualification, the topics and learning outcomes are the result of the consultation process embarked upon by the FSA and the Skills Council. Therefore, while in keeping with other awarding bodies we have had input into the review process, the **ifs** is not solely responsible for determining the full range of topics that appear in the syllabus.

Materials are designed by the **ifs** to support learners in their studies and, as such, they cover the requirements set out in the syllabus for the subject you are studying. All examination and specimen questions are based on, and referenced to, the content of the syllabus and the learning outcomes detailed therein. It is therefore very important that you fully familiarise yourself with the content of the syllabus for this module/unit, both at the outset of your preparation and as a reference point as you progress towards attempting an examination. You can access the syllabuses from a number of different sources. They are printed in full at the front of the learning materials, can be downloaded at **[www.ifslearning.ac.uk/qualifications/syllabuses](http://www.ifslearning.ac.uk/qualifications/syllabuses)** or

obtained on request from the **ifs** Customer and Student Services Team on +44(0) 1227 818609. Please make sure you have access to a syllabus as you begin to work towards the examination.

## How to use this manual

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This study manual is a self-contained distance learning text. This means that it is up to you when, where and at what pace you study in order to prepare for your exam. The content is based exclusively around the syllabus for this Module. You will notice that the content is clearly divided between Units 1, 2 and the MCOB Rules. You should ensure that you study these Rules as you will be examined on their content.

Upon registering for this module you will also have been granted access to these same materials on the Internet. By entering your login details at the appropriate prompt within **myifslearning.com** you can access this manual in .pdf format. **You can read and print the files if you wish. Although you can print out pages please note that the materials should not be copied or transmitted onward.**

There is no guarantee that every single topic will be covered in the questions that arise when you take the exam. However, all the questions that will appear in your exam are based on the content of this manual. There is nothing in the study manual that you should consider irrelevant, however familiar you already are with the topic. It is not intended that the study manual provides you with verbatim answers to every question. However, it does provide subject knowledge across the entire syllabus.

We have structured the study materials in such a way as to help you break the topics down into a manageable size and to understand how the various technical aspects apply in practice.

## Important note

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You are not expected to memorise specific case law names and dates, or current tax or national insurance rates and allowances. A list of appropriate tax and national insurance rates and allowances, etc, will be made available at the examination itself.

## Updates

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The syllabuses and study materials for CeFA® and CeMAP® are updated annually, with updated materials being published in July for examinations taken from the following September. For 2008/09 there is no standalone update for each module to be used alongside the existing 2007/08 edition of the text. Instead, the new edition indicates in the margin where a change has been made. Amendments to the text are the result of changes to the syllabus and the Chancellor's last Budget.

In April 2008 we published a pre-update Bulletin indicating where syllabus changes impact on each module. If you have not already done so you are advised to refer to this document, which is available to all registered students from <http://www.myifslearning.com/>. If you have any difficulty accessing this document please contact our Customer and Student Services team.

Materials are designed by the *ifs* School of Finance to support learners in their studies and as such they have been prepared to cover the requirements set out in the syllabus for the subject you are studying. The questions in examinations are based upon the content and learning outcomes documented in the syllabus. All questions, live and specimen, are references to the syllabus. It is therefore very important that you fully familiarise yourself with the content of the syllabus for this module/unit, both at the outset of your preparation for an assessment and as a reference point as you progress towards attempting a test. To help you in this, syllabuses have been made easy to access from a number of different sources. They are printed in full at the front of the learning materials, can be downloaded at [www.ifslearning.ac.uk/qualifications/syllabuses](http://www.ifslearning.ac.uk/qualifications/syllabuses) or obtained on request from the *ifs* Customer and Student Services Team on +44(0) 1227 818609. Please make sure you have access to a syllabus as you begin to work towards the examination.

**It is your responsibility to ensure that you have the up-to-date learning materials for your examination.**

## Support services

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In addition to the study manual you also have access to the following services.

Our website **www.ifslearning.ac.uk** for all general enquiries and update information on the qualification structure.

The **Student Support and Guidance** team, within Customer and Student Services, is available to assist in helping candidates who need advice on how to study or have queries regarding part of the syllabus or content of the study material. To ensure that your query is fully understood and dealt with appropriately, we strongly encourage you to contact us in writing, by fax or email. We will either provide you with a response directly or refer your query to an industry expert. Please note that this may take up to 48 hours during busy periods.

To contact Student Support and Guidance:

Email: [guidance@ifslearning.ac.uk](mailto:guidance@ifslearning.ac.uk)

Fax: 01227 784331

To contact Customer and Student Services:

Email: [customerservices@ifslearning.ac.uk](mailto:customerservices@ifslearning.ac.uk)

Tel: 01227 818609

## Examinations

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To book examinations – the hotline number is **0870 6081915**.

Please note that if you are re-sitting an exam you will first need to register your re-sit with the **ifs**: this can be done by contacting **ifs** Customer and Student Services on 01227 818609.

## Examination Results Analysis Sheet

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On completion of the examination, candidates will receive their 'Examination Results Analysis Sheet'. This will contain their details and mark. **Candidates will also find a list of the syllabus areas they may have answered incorrectly. References to the study manuals are not provided.** The list is designed to assist candidates to identify any gaps in their knowledge and to steer them towards the areas to revisit before attempting the examination again.

A sample analysis sheet is provided below.



### Examination Results - Analysis Sheet

VUE Candidate

Number of questions: 50  
Number of correct answers: 0  
Number of marks achieved: 0

**IFS CONTACT NUMBER:** 5090718  
**REGISTRATION ID:** 5090718  
**VALIDATION ID:** 2016800472

Result: Fail

Exam: UK Financial Services and Regulation

Date: 17-Dec-2007

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**Please note:**

To pass this unit, candidates must achieve a mark of 35.

The topics listed below indicate the syllabus areas in which you answered questions incorrectly. If you have answered more than one question incorrectly in a specific topic area this topic will only be listed once on your analysis sheet. Therefore the number of text references below is not necessarily the same as the number of questions that you answered incorrectly.

These syllabus areas can be found in your tuition material.

**Please allow 24 hours before booking to resit this examination.**

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- Unit 2; U3.10; Product disclosure and risk disclosure statements
- Unit 2; U4.6; Training requirements
- Unit 2; K1.6; The fit and proper test for approved persons
- Unit 2; U3.5; Identifying client needs and advising
- Unit 2; U3.9; Cooling off and cancellation
- Unit 2; U3.13; Regulatory rules for general insurance advice - (ICOB)
- Unit 2; U5.3; The Financial Ombudsman Service (FOS)
- Unit 2; K2.2; The Pensions Regulator
- Unit 2; U5.1; Consumer rights and remedies, including awareness of their limitations
- Unit 2; U3.11; Simplified advice on the stakeholder suite of products
- Unit 2; U6.3; Enforcement of the Data Protection Act
- Unit 2; K1.1; The Financial Services and Markets Act 2000
- Unit 2; K2.3; Unfair Contract Terms; Advertising Standards Authority; Banking Code
- Unit 2; K1.5; Arrangements, systems and controls for senior managers
- Unit 2; U3.7; Execution only, non-advised sales and statements of demands and needs
- Unit 2; U4.3; Client identification procedures
- Unit 2; K2.1; The Office of Fair Trading and the Consumer Credit legislation
- Unit 2; K1.7; The prevention of crime, including market abuse and insider dealing
- Unit 2; K2.4; EU directives - including MiFID
- Unit 2; K1.3; The FSA's principles for businesses and approved persons - how they reflect the need for ethical behaviour by firms and approved persons, FSA guidance (for example, Treating Customers Fairly)
- Unit 2; K1.4; The approach to, and requirements for, treating customers fairly, including service standards and an awareness of the respective duties of product providers and advisers
- Unit 2; U3.3; Information about the firm's services, including client agreements and initial disclosure documents

- Unit 2; U4.5; Reporting procedures, Serious Organised Crime Agency (SOCA)
- Unit 2; K1.2; The FSA's main objectives, role and activities
- Unit 2; U4.2; Money laundering regulations and offences, the Terrorism Act 2000, Proceeds of Crime Act 2002
- Unit 2; U1.4; Discipline and enforcement including notification requirements
- Unit 2; U3.6; Suitability of advice
- Unit 2; U2.1; Approved persons and controlled functions
- Unit 2; U2.2; Reporting and record keeping
- Unit 2; U3.8; Charges and commissions
- Unit 2; U3.4; Status of advisers and status disclosure to customers, specific rules for independent financial advisers and whole of market advisers
- Unit 2; U3.12; Regulatory rules for mortgage advice - (MCOB)
- Unit 2; U1.3; FSA supervision and the risk based approach
- Unit 2; U3.2; Types of client
- Unit 2; U5.4; The Financial Services Compensation Scheme (FSCS)
- Unit 2; U6.2; The data protection principles
- Unit 2; U3.1; Advertising and financial promotion rules
- Unit 2; U2.3; Training and competence rules

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*This examination was delivered at a Pearson VUE Authorized Testing Center. You may authenticate this score report by going to: [www.pearsonvue.com/authenticate](http://www.pearsonvue.com/authenticate). You will need the Registration ID and Validation ID as listed above.*

## Additional support

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The following are available at additional cost to enhance your prospects of passing the examinations. **These are NOT intended to be used as a replacement for the study manual, but are designed to assist your study and revision.** Many financial services companies subscribe to some or all of these products, so it is advisable for you to check with whoever handles your company's training needs to establish whether they currently have access to these products. Otherwise please direct your queries to our main Customer and Student Services number 01227 818609.

**Specimen papers** – available for each unit and module in printed form. These mirror the live exam for style, coverage of learning outcomes, etc. Each is supplied with a full list of answers and justifications.

**Revision notes** – summary versions of the study manuals that serve as a quick reference to all the main topics within the syllabus.

**Online Subject Expert Support** – an online forum to which subscribers can post technical and study-related queries relevant to the syllabus. A subject

matter expert with experience in training students for CeFA® and CeMAP® examinations will post a reply. You can also use this service to communicate with others studying your module.

**Competence Development Tool** – this popular eLearning tool features complete specimen question banks for every module with feedback linking every question to the study text. It is updated every year in line with the syllabus. There are separate editions for CeFA® and CeMAP®. The CDT will be available online from 1 September, providing subscribers with 12 months' access to the most up to date edition, including any update that occurs during the subscription period. In addition, all subscribers receive the current CD Rom version.

**Study Guide** – Sometimes, you may need more than just a simple definition, especially when studying some of the more detailed subjects, or topics that are completely new to you. You might, for example, be studying 'Financial Products' (UK Financial Regulation, Unit 1, Section 3), which describes the various types of investments on the market, some of which share the same characteristics. You may feel that you need an alternative way of learning their various features to help you understand and remember the differences between them.

Or you might be reading about a more unfamiliar topic, such as 'Capital Adequacy', mentioned earlier, and feel that you will benefit from an alternative description that helps to put the subject into context and demonstrate its relevance to you as a mortgage or financial adviser.

These are examples of when you will find the Study Guide useful as it translates some of the trickier subjects into plain, easy-to-understand language. The Study Guide is a workbook that, when used in conjunction with the manual, will break up the monotony of just reading and making notes, and will give you a range of examples and case studies to guide you through the syllabus.

It provides some useful tips on how to remember certain facts, and includes some questions and exercises that will test your understanding. It will also give you an idea of how the questions on a particular subject might present themselves in the exam.

An exam question on taxation, for example, may require that you do a calculation, whereas for other topics you might be asked to select a sentence that best describes a product, or a rule, or an organisation, etc. Some questions ask you if a statement is true or false, others ask you to select the correct

answer from a choice of options and, occasionally, you will be asked which of the four options is *untrue* or *incorrect*.

The Study Guide will help you to learn not just the facts and figures that make up the syllabus, but their context and relevance. It will help you to prepare for the exam as you learn so that, however the question is presented or worded, you select the right answer with confidence.

The Study Guide will be available to students via **[www.myifslearning.ac.uk](http://www.myifslearning.ac.uk)** from August 2008.

**Training courses** – the *ifs* does not formally recognise any providers of training for regulatory qualifications. However, there are external providers of training that offer varying types of training programmes and some employers provide their own internal training. We suggest that when considering an external course of any type, you research the provider's website and request testimonials from previous customers.

### **Disclaimer**

**These learning materials have been designed by the *ifs* to support students in their studies and in particular to help them prepare for their assessment(s). The assessments are based upon the content and learning outcomes documented in the award/module/unit syllabus, which is printed in full at the front of the learning material. A copy of this syllabus can also be found at [www.ifslearning.ac.uk/qualifications/syllabuses/certificate/index.cfm](http://www.ifslearning.ac.uk/qualifications/syllabuses/certificate/index.cfm) or obtained on request from the *ifs* Customer and Student Services Team on +44 (0) 1227 818609.**

**The learning materials have been prepared to cover the requirements of this syllabus and a comprehensive knowledge and understanding of the content of these learning materials should allow students to be successful in the assessment(s).**

**Because some of the topics within the syllabus are inter-related and the learning materials are written in a style that is intended to explain concepts and engage the user in active learning, there are occasional instances where it is not possible to find a specific reference point to answer each question. This is particularly true of questions relating to case studies where the application of knowledge is being tested.**

**Here, a candidate's knowledge of all preceding modules is relevant and consequently questions may relate to more than one point in the learning materials.**



# Overview – context and relevance to CeFA® and CeMAP®

UK Financial Regulation focuses on the financial services environment and the regulation surrounding the provision of financial services. This guide explains the context and relevance of the Module 1 syllabus to the CeMAP® and CeFA® qualifications. In particular, it addresses the relationship of Module 1 to subsequent modules and how knowledge and understanding gained during your studies will be of use when practising in the financial services industry.

This induction has been divided into the following six sections and includes an explanation of the study materials available to assist you:

- ◆ Introduction
- ◆ Professional practice
- ◆ What are CeMAP® and CeFA®?
- ◆ UK Financial Regulation overview
- ◆ How is UK Financial Regulation relevant to me?
- ◆ Summary

## Introduction

---

A career as a mortgage or financial adviser can be very lucrative and rewarding, and there are plenty of opportunities for qualified individuals. The CeMAP® and CeFA® qualifications are highly regarded, providing you with the knowledge and understanding of the financial services industry that you need in order to fulfil these roles effectively and to build yourself a reputation as a professional.

The Financial Services Authority (FSA) is the industry regulator whose responsibility it is to set and maintain certain standards within the financial

services industry. Its main objective is consumer protection – to ensure that consumers are well informed about the products they are buying, and that the advice they are given is appropriate to their needs.

In order to achieve this objective, the FSA requires that those giving financial advice should understand, not just the products and procedures they deal with on a daily basis when advising their clients, but the rules and regulations within which they work. The FSA is the backbone of the financial services industry. The regulatory framework it has created gives credibility to the products you sell and reliability to the advice you give.

CeMAP® and CeFA® will provide you with this invaluable knowledge, enabling you to further your career as an adviser – one who works within the principles laid down by the FSA and whose clients can trust the advice they are given.

## **Professional practice**

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Twenty-five years ago, becoming a mortgage or financial adviser was easy – there were fewer companies offering financial services than there are now and their products were less complicated. There was no requirement to pass any exams and, being less financially aware than they are today, consumers trusted their unqualified advisers with their hard-earned savings and entered into long-term contracts with lenders and insurance companies on their advice.

There was no requirement for the advisers to complete any kind of documentation, other than the application or proposal form for the product being sold and, with nobody looking over the adviser's shoulder or questioning the advice being given, many consumers found themselves with products they didn't need, risky investments they thought were safe, premiums they couldn't afford and penalty clauses that weren't explained to them until it was too late.

As a result of the lack of regulation in the financial services industry, there were a series of financial scandals in the 1980s and 1990s, not only involving bad advice and mis-selling, but also relating to the financial soundness of the product providers themselves. Consumers needed protection.

Regulation of the financial services industry began in earnest with the Financial Services Act 1986 and has been reviewed and improved ever since. It is now heavily influenced by the EU. What we have today is a financial services environment that emphasises fairness, openness, honesty and integrity. The

stringent regulations within which we now work ensure that product providers are properly managed and that advisers are appropriately qualified. Consumers are protected against fraud and mis-selling, thereby maintaining confidence in the financial services system.

## **What are CeMAP<sup>®</sup> and CeFA<sup>®</sup>?**

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The Financial Services Skills Council (FSSC) is licensed by the UK government to identify and set the standards for the industry-recognised qualifications that must be achieved in order to become a mortgage or financial adviser. CeMAP<sup>®</sup> (Certificate in Mortgage Advice and Practice) and CeFA<sup>®</sup> (Certificate for Financial Advisers) are approved by the FSSC and are accredited by the Qualifications and Curriculum Authority (QCA). They are incorporated into the National Qualifications Framework at Level 3, making them equivalent to an A level.

CeMAP<sup>®</sup> is the qualification for mortgage advisers and is made up of three modules (3 separate exams):

Module 1 – UK Financial Regulation\*

Module 2 – Mortgages

Module 3 – Assessment of Mortgage Advice Knowledge

CeFA<sup>®</sup> is the qualification for financial advisers and is made up of four modules (4 separate exams):

Module 1 – UK Financial Regulation\*

Module 2 – Investments and Risks

Module 3 – Retirement Planning and Protection

Module 4 – Assessment of Investment Advice Knowledge

\*Module 1 (UK Financial Regulation) is the same for both the CeMAP and CeFA qualifications so, whether you want to become a mortgage adviser or a financial adviser, or you haven't made up your mind yet, Module 1 is the gateway to your career in the financial services industry.

## UK Financial Regulation overview

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UK Financial Regulation is the foundation module; it sets the scene and should be the first exam that you take regardless of whether you are intending to follow the CeMAP® route or the CeFA® route. This module describes the various organisations that make up the financial services industry, and explains what they do and where they fit into the big picture.

The UK financial services industry is a highly sophisticated ‘engine’, and some of these organisations and bodies are fundamental to its existence; others just oil the wheels and check that good practice and regulations are adhered to. UK Financial Regulation will give you a comprehensive overview of how they all work together; the checks and controls that prevent the engine from overheating, and the people and products that make the UK financial markets the envy of the world.

UK Financial Regulation explains the role of the government and how it influences the flow of money between individuals and organisations, why it controls interest rates through the Bank of England, and how this impacts on inflation. It describes the numerous investment, insurance, mortgage and protection products that you will one day be selling, as well as how they are taxed.

You will learn how the institutions and individuals that make up the financial services industry are regulated and the rules that apply to them in practice – rules that ensure prudence on the part of the product providers (banks and insurance companies) and rules that must be adhered to by the advisers themselves to make sure that consumers are protected against the type of financial scandal that blighted the industry two decades ago.

UK Financial Regulation will equip you with the skills you need to identify clients’ financial needs – those they are aware of and those they aren’t – and formulate solutions for them and their families. It is vital that you have studied and passed Module I before you move onto the later modules because it explains the importance of comprehensive information gathering, prioritising of needs and assessing a person’s attitude to risk, so that when you are advising your client as to the best way forward you select the product that fits the solution, not the other way around.

That is the difference between a good adviser and a bad one. It is what makes you a professional; one who cares about your clients’ financial needs and recognises the consequences of bad planning, or no planning at all... an adviser whose clients will return, time after time.

More importantly, though, and one of the main reasons why Module 1 is positioned as the foundation module, is its vital role in teaching the principles of giving advice.

You will need to have learned these principles **before** you study the final module of either the CeMAP® or CeFA® qualifications, both of which are intended to assess your understanding of the entire syllabus – testing your ability to apply the knowledge you have acquired from the previous modules to a series of case study situations.

Success in the final module rests not only on your knowledge of the facts, figures, products and procedures, but on your ability to assess the financial needs of individuals in a given set of circumstances. You will be expected to make product recommendations that satisfy not only their immediate financial requirements, but which also provide for any foreseeable changes in their personal and financial circumstances.

Making recommendations isn't just about learning the features of all the available products – you will need to take into account possible immediate and future tax liabilities, eligibility for allowances and benefits, as well as the personal preferences, beliefs, plans and aspirations of the client in question. A person's income, rate of tax, age, marital status, loans, the age of their children and even their hobbies can influence the type of products they should or shouldn't buy. How all of these factors can influence the recommendations that you make, and the information you need about the taxes and benefits that affect your client, is contained in Module 1. This is why it is so important that you take Module 1 first.

## **How is UK Financial Regulation relevant to me?**

Module 1 has the broadest syllabus of all the modules that make up CeMAP® and CeFA®. It requires the most study time and contains material that, at first glance, students often feel is above and beyond the scope of their future roles as mortgage or financial advisers.

It isn't until you have passed all of the modules and become fully qualified that you sit in front of real customers – and that is when you begin to appreciate just how useful knowledge of a wide array of topics is going to be to you.

Your clients will come from a variety of backgrounds, do a variety of jobs and will come to you with vastly different levels of knowledge, not just of the

products you are giving advice on, but of the industry as a whole. They read newspapers, they talk to their friends, they browse the Internet, and their interpretation of what they read or hear is often far removed from the actual circumstances and intricacies.

They will have concerns, often borne out of previous experiences or those of their parents, and they want to know that they are doing the right thing. You are the one person to whom they are about to entrust their future financial security, and that of their children, and that is a big responsibility. As their adviser, you need to be able to give them answers they can trust; answers that don't just reassure them, but that you can back up with facts.

The questions your clients will ask you will be more than just '*How much is that going to cost?*' or '*What happens if interest rates go up?*' You are going to be expected to know the answers to some very obscure questions, some predictable, some not. But you can be sure that those who have worked hardest for their money will give you the hardest time, and if you can't answer their questions, or you provide inaccurate advice, they won't be your clients for very long.

And that is why the UK Financial Regulation syllabus is so diverse – to prepare you for the questions you know they are going to ask, and those that you don't!

Below are a few examples of some of the more difficult topics, along with instances of when knowledge of them will be of use to you in practice.

### **Example 1: 'Capital Adequacy' and 'Basel II' (UK Financial Regulation, Unit 2, Section 1)**

This section is primarily concerned with the Financial Services Authority and how it regulates firms and individuals and their activities. Without a doubt you will be able to see why it is important to learn the rules that apply to you as an adviser (the rules that dictate how you become authorised, the rules that tell you when you can and cannot contact a customer, the forms you must give to them, etc), but it is less clear why you need to learn the rules that apply to the banks and insurance companies themselves.

#### **What is capital adequacy?**

Capital adequacy is about making sure that credit institutions (banks and building societies) maintain a minimum amount of financial capital (their own money) to cover the risks to which they are exposed. For example, when a

bank or building society makes a loan to a mortgage applicant, the funds come from its depositors (savers). The depositors place their money in an account with the bank or building society, which then lends the money out to its borrowers. The interest that the borrowers pay to the building society is usually higher than the interest that it pays to its depositors and, in crude terms, the difference is the bank or building society's profit (less expenses of course).

If a borrower fails to pay their loan back, it is not the depositors who lose out – they save with a bank or building society because it is a safe place to put their money. The rules on capital adequacy require these credit institutions to put some of their own money (profit, shareholder capital, etc) to one side to cover such losses.

## **What is Basel II?**

The Basel Committee on Banking Supervision decides how much of their own funds credit institutions are required to set aside to cover risks such as the non-repayment of loans. The minimum requirements were first introduced in 1988, under an agreement called the 'Basel Accord', and are expressed as a percentage of the total amount a bank has outstanding in loans – currently 8%.

But there is more than one type of loan – some represent a greater risk to the lender than others. Unsecured loans represent the highest risk because if the borrower defaults, the lender does not have the right to seize their assets in order to recover the debt. Loans secured on property (mortgages) represent a smaller risk because, if the borrower defaults, the lender has the right to repossess the property and dispose of it in order to get its money back. A bank's loans are broken down into categories and the higher the risk to the lender, the more money they have to set aside to cover the risk of default.

The 'Basel Accord' was superseded in 2007 under a new agreement called 'Basel II', which ensures that credit institutions consider and make provision not only for the losses they might incur because of bad debt, but also for any losses that might result from operational problems (eg computer failure, staff fraud, or even a lightning strike). 'Basel II' also requires that 'stress tests' be carried out to make sure that the credit institutions would have sufficient capital in certain circumstances, and that such information is disclosed so that the risks to which a bank is exposed can be assessed.

### **When will you use this information?**

Imagine you are sitting in front of a client who has read the following in the newspaper that morning:

‘The number of people who had their homes repossessed jumped by 20% last year to an eight-year high, latest figures have shown...’

Your client, who has money invested with your institution, wants reassurance from you that this does not mean that their savings are at risk.

You can explain to your client that lending institutions are required by law to make provision for such eventualities from their own financial reserves, and that they are not allowed to use money deposited with them by their savers to make up any such losses, or shortfall in their income from mortgage interest.

### **Example 2: ‘The Bank of England’ (UK Financial Regulation, Unit 1, Section 1)**

This part of the syllabus describes the various functions of the Bank of England and its important role within the UK economy. Its roles include acting as ‘*banker to the banks*’, ‘*adviser to the government*’ and ‘*lender of last resort*’. But you don’t work for the Bank of England, your clients can’t have an account with them, and the only people likely to set foot in the Bank of England are the Chancellor of the Exchequer, other government ministers and the senior management of the major banks.

### **When will you use this information?**

Anyone who pays a cheque into an account knows that it is going to take three working days to clear, and your client wants to know why it takes so long to get their hands on the money.

You can explain to your client that a cheque is only a ‘promissory note’ – just a piece of paper telling the payer’s bank to give a certain amount of money to the payee’s bank. At the end of each working day, all the cheques received by a particular bank are sent to clearing centres where they are batched together – all those drawn on Barclays are put into a pile, as are those for NatWest, and so on. The value of the cheques in each pile is totalled up to work out how much each bank owes the other, and the net balances are then settled through

the accounts that each bank holds with the Bank of England in its function as 'banker to the banks'.

So you can tell your customer that, apart from inspecting each cheque to ensure that it has the right signature, that the words and figures match, and that it isn't out of date or stolen, this is why it takes three days for the funds to be cleared.

Your next customer has been watching images on the TV of investors queuing up and down the high street to withdraw their money because their bank has suddenly found itself in financial difficulty. Your client needs reassurance that their savings are safe with your institution, and that the same won't happen to them.

Although the length of the queues was fuelled largely by panic and 'chinese whispers', you can explain that the Bank of England, in its capacity as 'lender of last resort', stepped in and made a loan to the bank concerned, not because it had squandered its customers' savings, but because its assets could not be liquidated at such short notice to enable it to give all of its investors their money back.

The run on the deposits of the Northern Rock, in late 2007, was not because the bank had become insolvent, but because a higher than usual proportion of its lending was funded through the 'wholesale market', explained in the next example...

### **Example 3: 'Retail and Wholesale Funding' (UK Financial Regulation, Unit 1, Section 1)**

Traditionally, lending institutions (banks and building societies) attract deposits from people with spare cash (the savers) and then lend that money out to those who need it to buy houses (the borrowers). This is called 'retail funding' – they use their retail branch network to attract both types of customer.

'Wholesale funding' is the process of raising money, not by attracting deposits from savers, but by borrowing large sums of money from the 'wholesale market', ie borrowing from other financial institutions (banks, consortiums, companies, etc) to lend out to mortgage borrowers. Money raised on the wholesale market is often cheaper because the sums involved are huge and don't just come from UK sources. Some lending institutions do not have any branches at all; they raise all of their mortgage funds in this way, attracting borrowers through the Internet or operating through intermediaries.

High street banks and building societies raise their mortgage funds using a combination of retail and wholesale funding, although building societies are restricted as to how much they can rely on the latter. Northern Rock, the bank referred to in the previous example, relied heavily on the wholesale market to fund its lending activities – in fact the value of its deposits is dwarfed by the total sum it has outstanding in mortgage loans.

But because the wholesale markets are global, the availability of funds to an institution depends on the willingness of banks across the globe to lend to them. In the UK and the US, repossessions are at an unusually high level, causing panic and speculation, and many wholesale sources of funding are drying up – a ‘credit crunch’.

When a bank, whose business plan is heavily weighted towards the mortgage market, is having difficulty raising money because it has chosen to rely on wholesale funds rather than concentrate on attracting investments, it finds itself short of liquid cash. And when the name of their bank hits the headlines, no matter what the reason, the first thing people do is panic and withdraw their money – hence the queues.

### **When will you use this information?**

A bank experiencing financial difficulties is rare – a more regular and pertinent example of when knowledge of mortgage funding will be invaluable to you is when discussing mortgage options with your client, particularly when talking about fixed- and capped-rate products.

As a general rule, high street banks and building societies use wholesale funding to fund their current fixed- and capped-rate mortgage deals; their variable rate mortgages coming from retail funds.

Fixed- and capped-rate deals are for a specific term: two years, three years, five years, etc. What this means in simple terms is that the bank borrows a large amount of money from the wholesale market at a fixed rate, over a fixed term. It then lends that money out to its borrowers at a slightly higher fixed rate, over the same term, giving the bank a guaranteed profit margin. When the bank has lent out all of the money it borrowed, that particular ‘deal’ is withdrawn from the market.

So when you have a client who wants a mortgage and they are asking why the fixed rate deal advertised in last week’s paper is no longer available, you can give them a more satisfactory answer than ‘*Head Office said so*’.

The syllabus for Module 1 contains many more subjects, the relevance of which will not be immediately apparent to you, but as the above examples have hopefully demonstrated, they are all in there for a reason.

## Summary

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Remember that you have *chosen* to follow a career in financial services. Learning about how it all works and how to become a good adviser can be an enlightening experience.

Passing these exams is an achievement to be proud of, something that will earn you respect and give you enormous satisfaction, not to mention the financial rewards once you are qualified. If you take the view that it is something to 'get behind you' as quickly as possible, you will not enjoy your studies and you will be less likely to remember what you have learned.

Embrace this opportunity to broaden your knowledge. Take the time to absorb the information so that when you take your exam, you do so with confidence. Remember that the investment you put into UK Financial Regulation will pay dividends when you study later modules.

Good Luck with your studies!



# Study guidance and assessment preparation

## **Why study UK Financial Regulation first?**

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In the past, some students have chosen to leave UK Financial Regulation until last. There are a number of reasons why you should not do this:

1. As explained above, the UK Financial Regulation syllabus is designed to prepare you for later modules – that is why it is referred to as the ‘foundation module’. Without the knowledge contained within UK Financial Regulation, many of the subjects in the later modules will seem incomplete and your understanding of them will be inadequate.
2. Some subjects are covered in more than one module. For example: ‘Mortgage Interest Rate Options’ and ‘Mortgage Repayment Vehicles’ both appear in UK Financial Regulation and Module 2 of CeMAP®. UK Financial Regulation introduces them in simple terms, whereas Module 2 goes into more detail, assuming that you already have a basic understanding.
3. UK Financial Regulation contains more ‘new’ subjects than the other modules – subjects that you are unlikely to have come across before. It is better to tackle them with a clear head than to do so after struggling with later modules that you would have found a lot easier had you taken them in the correct sequence.
4. Research has shown that the pass rates are higher for those who studied the modules in the right order than for those who didn’t.

## The structure of this Manual

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The Manual is broken down into two Units and an appendix. **Unit 1** introduces the financial services environment and is itself split into six distinct sections, each one dealing with different aspects of the syllabus, such as the financial environment, products and services, and the process of giving financial advice.

**Unit 2** deals with different aspects of the regulation of financial institutions and financial products. This includes an introduction to the work of the Financial Services Authority, as well as an overview of other relevant legislation relating to, for example, data protection and money laundering.

The **appendix** contains a summary of the FSA's Mortgage Conduct of Business (MCOB) rules, which form part of the material for this exam.

Although the Manual does, for the most part, follow the general order of the syllabus, there are one or two places where related items from different parts of the syllabus have been linked together in one section.

To allow you to assess how well you have acquired – and can apply – what you have studied, a number of questions have been included at the end of each Section of the Manual (with answers supplied so that you can check how well you did). These questions are not in the style of the questions you will meet in the exam, although some of them are multiple choice questions. In addition to these questions, it is recommended that you practise by answering the Specimen Papers that are available from the *ifs*.

The content of the learning materials has been designed to cover the full range of the syllabus for Module 1. You are also, however, encouraged to 'read around' the subject as much as possible to deepen your understanding and seek alternative perspectives on current issues in financial services. A good starting point for this is the financial pages of the more serious daily newspapers and the personal finance supplements that many papers publish with weekend editions.

Many websites also contain useful information about topics covered in the Manual, from the official websites of HM Revenue & Customs, the Department for Work and Pensions, and the Financial Services Authority, to the websites of newspapers, accountancy firms and others. Entering one or two key words into a good search engine should take you quickly to the most useful references.

## **The structure of the assessment**

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The exam is composed of 100 individual multiple choice questions; there are no case study questions in this assessment. There are 50 questions for Unit 1 and 50 for Unit 2. Each of the questions carries one mark and you will have two hours to complete the examination.

The pass mark is 70%. It is necessary to reach an adequate standard in both Unit 1 and Unit 2 to obtain a pass for the exam. However, if you should pass in one Unit but not in the other, you can re-sit just the unit in which you were unsuccessful.

It is important to understand that the questions are designed to test the full scope of the syllabus and therefore you will need to develop a depth of understanding across all of areas of the syllabus.

Please note, however, that you are not expected to memorise current rates, bands or allowances in relation to taxation or national insurance. A list of any relevant figures will be made available at the examination centre.

## **Preparing for study**

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There is no getting away from the fact that to pass this assessment you will have to put in some committed study time. One of the main reasons why people fail exams is that they haven't learned the material adequately; all too often this is because they didn't plan their studies. This part of the manual is designed to help support you with that.

Never lose sight of the fact that the CeFA<sup>®</sup> and CeMAP<sup>®</sup> qualifications are professionally recognised throughout the financial services industry. Furthermore, what you learn is valuable for your own life.

It's possible that you're taking this qualification because 'it's part of your job'. But taking an exam simply because 'you have to' is unlikely to be motivational. So, think about the following questions for a couple of minutes.

- ◆ What it will mean to you to pass this exam?
- ◆ What will it be like when you get the results slip and it says 'Pass'?
- ◆ What will you do to celebrate?
- ◆ What might your friends and family say?

The answers to these questions should provide more motivation than simply taking the exam because you have to. Passing an exam is a fantastic feeling: to experience that feeling you will need to do some hard work to prepare yourself. If ever you get to a point where you are struggling to understand something in this study manual or wishing that you didn't have to take the exam at all, then go back to the answers to those questions. It's also important to remember that you'll learn a lot that will stand you in good stead for your own life.

This section of the manual is designed to give you some guidance on how to properly prepare yourself. Because none of this section forms part of the study text, it may be tempting to skip it and just dive into the learning. Please don't.

There is an old saying: 'Failing to plan is planning to fail'. It's true of many things in life and is certainly true of preparing for exams – so please read on.

To get yourself ready for the exam you will need to plan your approach, so we'll consider several key aspects of planning in this section:

- ◆ allocating enough time;
- ◆ getting your state of mind right;
- ◆ how people learn;
- ◆ structuring your study;
- ◆ how to develop a study plan;
- ◆ how to learn the content of these learning materials;
- ◆ when you are studying;
- ◆ other support;
- ◆ on the day of the exam;
- ◆ during the exam.

## **I. Allocate enough time**

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It is suggested that you need between 40 and 60 hours of study time before you take your UK Financial Regulation exam, but to give yourself the best chance of passing first time, you should probably allow more time than this. Due to the diversity of the syllabus, UK Financial Regulation does not lend itself to 'crash courses' or to cramming your study into solid blocks of time. 'Little and often' is the best approach. Considering that the CeMAP<sup>®</sup> and

CeFA® qualifications are regarded as the equivalent to an A level, which usually takes two years, it is unrealistic to believe that you can read, understand and remember the entire UK Financial Regulation syllabus in a just a few days.

## **2. Getting your state of mind right**

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It's quite possible that you have some negative feelings or 'baggage' about sitting this exam, for example:

- ◆ you may have failed exams before;
- ◆ you may have failed this exam before;
- ◆ it may be a long time since you last sat an exam;
- ◆ you don't consider yourself a 'bright spark';
- ◆ you think that the study will be boring;
- ◆ you think you will fail;
- ◆ you wish that you didn't have to do the exam.

To have some or all of these thoughts and feelings is quite common, and perhaps even to be expected; but none of them will add anything to your chances of passing the exam.

Although your thoughts and feelings will be very real to you, you should ask yourself whether they are making it easier or more difficult to prepare for the exam. Almost certainly they are not helping – if so, do everything you can to get rid of them.

As already mentioned, the most common reason why people fail this exam is that they are inadequately prepared; in short they didn't do enough study. Let's be realistic here: this is a professionally recognised exam, so it isn't something you're going to pass by getting the notes out the day before and doing a couple of hours reading. You will need to plan and carry out some committed study.

The following sections will give you some ideas as to how to approach this, but your state of mind is the key. If you approach every study session and the exam itself with a feeling of dread, believing it to be the worst experience in your life – then that's exactly what it will be! So ... always adopt a positive approach, and never lose sight of the good things that will happen when you pass.

### 3. How people learn

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There have been many studies of how people acquire, retain and apply new information. Some of the themes that are relevant to studying for this and similar exams are:

- ◆ we typically only use a small fraction of the brain's capacity – so there is plenty left over to learn new things;
- ◆ you needn't have a track record of academic achievement, or consider yourself to be particularly 'bright', to learn new things;
- ◆ past performance may not be a guide to future performance, so it needn't matter if you have failed this or other exams before;
- ◆ the more you use and stimulate your brain, the easier you will find it to take on new information.

Take a minute to reflect on the themes above and consider what they mean for you. With regard to the third point above it may be worth remembering that:

'If you keep doing what you have always done then you will always get what you always had'.

So, if you have already sat and failed this exam, ask yourself: 'What can I learn from that experience?'. If you approach it this time in the same way as you approached it last time, what do you expect to achieve that is different?

Ask yourself what positives you can take from sitting the exam before, and what worked for you when you prepared yourself last time. Hold onto the good things, and change anything that didn't help you.

### 4. Structuring your study

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We have already mentioned that the main reason why people fail this exam is that they fail to prepare themselves properly; it will therefore come as no surprise to find that a common characteristic of those who pass is that they are properly prepared. In this section we will consider how you can plan your study to ensure you are properly prepared.

In many ways this is quite simple: you need to develop a robust study plan that will enable you to commit enough time, over a period of time, for you to have learned the material.

Just reading the manual once is unlikely to be enough. You will probably need to take notes as you work through the manual and, having gone through the manual, you will then need time to revise the key points.

## **5. How to develop a study plan**

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Your starting point is to establish when you will be sitting the exam – once this is set as a landmark you can then work back to the present day and build up a formal plan.

It is recommended that you spend at least 60 hours preparing for the exam, so, once you know when you want to sit the exam you should aim to build a plan that allows you to complete the required study before the exam date.

### **Points to consider in making your plan**

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- ◆ Ensure that you have a clear view of any personal or business engagements between the start of the plan and the exam; accommodate these within your plan.
- ◆ Ensure that you build in enough time to read through the whole manual, acquire the basic knowledge and then revise. Reading through just once is unlikely to be sufficient.
- ◆ Be realistic about your plan. It is probably better to do a little study each day over a long period, rather than try to cram all the work into the last few days.
- ◆ Decide what is your best time of day for studying; some people are better in the mornings, others prefer to work late at night. Plan your studies accordingly.
- ◆ Look over the whole Manual and break it down into smaller chunks; use these as milestones to mark your progress. Don't forget that the Mortgage Conduct of Business (MCOB) rules are also part of the exam material.
- ◆ Aim to finish your revision two days before the examination; then, on that last day you'll have time to look through things one last time in a more relaxed and confident frame of mind.

- ◆ Be realistic in setting goals – don't plan to do 30 pages in a session if you know that normally you only do ten; quality is always better than quantity when it comes to study.
- ◆ Consider who else will be affected by your studies such as friends or family; ensure that they know what you're planning, why it's important and what kind of support will help you.
- ◆ Identify someone who can act as support to you as you study; for example, there may be friends or colleagues who have passed the exam. Their support and insight will be invaluable. If possible, arrange for someone you know who has passed the exam to act as your mentor as you study.
- ◆ Build your plan so that you can continue doing your favourite things while you work towards the exam. Study is not a punishment, and a properly constructed plan should allow you do all the fun things you would normally do, while working towards the exam.

## **6. How to learn the content of this Manual**

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It is generally acknowledged that we are more likely to remember something that we write as opposed to something that we just read. Re-writing the whole text, however, is not a recommended approach – it would take far too long and, more significantly, merely copying the text won't promote understanding of it. Therefore it's advisable to use a system for summarising the text. Selecting and highlighting key points is an important step in developing good comprehension and memory of the information.

Common ways to highlight the main ideas include:

- ◆ make a separate set of study notes;
- ◆ make a set of key cards of themes and main topics – you can easily study these on a train or at a bus stop;
- ◆ prepare self-assessment questions on cards – questions on one side, answers on the reverse;
- ◆ add your own marginal notes to the text;
- ◆ underline or highlight the text itself, particularly for key points.

## Bite-sized chunks

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When you look at the syllabus and the course manual for UK Financial Regulation, it may well appear daunting at first glance. If you separate it into its individual sections, some of which are only 10 to 15 pages long, you break it down into a series of more manageable sections. Tackle each section one at a time – you might want to take the section you are studying out of the manual and put it in a ring binder so that when you are making your own notes, you can keep all of the relevant papers together.

When you sit down for a study session, maybe for one or two hours at a time, having just one section in front of you instead of the whole manual gives you a sense of accomplishment. It helps you to focus on one topic at a time, without dwelling on those before and after it.

Read the section, and then read it again. Make notes in your own words that help you to remember. When you are confident that you have learned all of the information in that particular section, it is a good idea to make a list of all the sub-headings for that section from the manual, close the book and write down everything you can remember for each of those sub-headings.

For example: UK Financial Regulation, Unit 2, Section 5 contains a sub-heading describing 'CAT Standards' as they apply to mortgages. It explains what 'CAT' stands for and lists the restrictions that apply to the charges on 'CAT Standard Mortgages', making them attractive to borrowers. Your notes may look something like this:

- CAT Standards – 'Charges, Access, Terms'
- Variable rate max 2% above BoE base rate
- Interest calculated on daily basis
- No arrangement fees or early redemption charges for variable rate
- Max £150 arrangement fee and limit to early redemption charges for fixed/capped rate
- No Mortgage Indemnity Fees
- Disclosure of other fees before signing

When you have completed the first three sections in this way, use your next study session to review everything you have learned so far, and do the same

when you have completed a couple more. When you have completed all of the sections in UK Financial Regulation, you will have your own set of revision notes that you can revise from when you are preparing for your exam.

## 7. When you are studying

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Approaching your study in the right way can ensure that you make best use of the time. Some ideas that have been tried and tested are included below.

- ◆ Pick a time and place where you will not be disturbed as you study; there is nothing more frustrating than having an interruption just as you are about to grasp a complex point. Interruptions *will* happen, of course; it's not the end of the world when they do. Be flexible in your approach, and re-plan when it does happen.
- ◆ Make sure the environment is right; if it's too hot you will feel drowsy, too cold and it will be difficult to concentrate.
- ◆ There is no hard and fast rule on listening to music while you study. Some people find that their favourite music helps them to 'anchor' what they are learning, whilst for others it's just distracting. Find out what works for you.
- ◆ At the start of each session of study, clarify in your mind what it is you are studying today, how long you have allocated, and what you hope to learn.
- ◆ At the end of each session, take a few minutes to reflect on what you have learned and note down the key points.
- ◆ Have frequent breaks when you are working: studies suggest that optimum concentration may only be achieved for 20 to 30 minutes, so it is advisable to break your study up with a 10 or 15 minute break between each session.
- ◆ Having made a study plan, ensure that you review it frequently to ensure that you are staying on target. If you fall behind the plan, being aware of this at an early stage can allow you to take corrective action before it is too late.
- ◆ Reward yourself for making progress – studying is never easy and there are always more enjoyable things to do instead, so reward yourself along the way if you have a good day's study or reach a target.

- ◆ Don't be disheartened if you have a difficult day or don't get as far as you had hoped: some topics are more difficult than others. If this happens, consider moving onto the next section of your plan and then coming back to the difficult bit another day.
- ◆ Stick to your plan: if you can make the study habitual it then becomes less of a chore. Furthermore, working regularly is much more effective than 'cramming' just before the exam.
- ◆ The more times you go over something the better your memory of the information is likely to be, so don't expect to read something and learn it all in one go.
- ◆ Monitor your *comprehension*: you can only remember and fully use ideas that you understand. Always check the logic behind ideas – you are less likely to remember something that doesn't seem logical or that you don't agree with.
- ◆ Manage your energy and workload. Make sure that you get enough sleep, eat well and get plenty of exercise – you will perform better in your revision and in the examination if you're relaxed and have a clear mind.

## 8. On the day of the exam

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Ideally you'll have followed your study plan through, and you'll be feeling ready and prepared for the exam. Don't worry if you're feeling nervous; this is very common, and only to be expected. There are a few things to consider as final preparations:

- ◆ ensure you have a good breakfast to ensure that your body is well fuelled;
- ◆ make sure you know where the examination centre is, where you can park and how long it will take you to get there; you might want to consider doing a 'dummy run' of the journey in order to be certain of timings;
- ◆ try to arrive at least 15 minutes before the exam starts so that any formalities can be taken care of without having to rush;
- ◆ wear light, comfortable clothing so that you won't get too hot;
- ◆ relax – if you've done the work the rest should be straightforward.

## 9. During the examination

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Listed below is some guidance to help you to approach the actual exam in the right way.

- ◆ Remember that the examination tests the whole syllabus and each question is a vital mark towards passing.
- ◆ Carefully read and understand each question before looking at the answers. If you can deduce the correct answer without looking at the options you won't be distracted by the wrong answers.
- ◆ Read each alternative carefully for understanding – not just for recognition. Pay careful attention to 'key' words in the text. Read particularly carefully if the question or any of the answers contain 'negative' words such as 'not'.
- ◆ If you don't know the answer, narrow your choices by eliminating any of the alternatives which you know are incorrect. If two options still look plausible, compare each to the stem, making sure that the one you eventually choose answers what is asked.
- ◆ If you are unable to make a choice and need to spend more time on a question, flag that question and move on to the next.
- ◆ Avoid getting bogged down on one question part way through the exam. It is much better to move on and finish all those questions that you can answer and then come back later to the problematic questions. Remember – any questions you miss because you ran out of time will be wasted opportunities to score more marks.
- ◆ If you really are stuck on a question at the end of the examination, make an educated guess at the answer – the exam is not negatively marked so you won't lose marks if you are wrong; it's always better to give an answer (even if it's a guess) than not to answer at all.
- ◆ Don't select an alternative just because you remember learning the information; something may well be a true statement in its own right, but you have to be sure it is the correct answer to that particular question.
- ◆ Don't necessarily pick an answer just because it seems to make sense. You should be answering from your knowledge of the course content – not just from your general knowledge and logic. However, if you need to make a guess, it may be sensible to try applying common sense and logic rather than to make a random guess.

**Good luck in your studies!**

# **UK Financial Regulation Certificate for Financial Advisers (CeFA<sup>®</sup>) and Certificate in Mortgage Advice and Practice (CeMAP<sup>®</sup>) Module I – Syllabus**

**It is important to note that the indicative percentages quoted should be used as a guide only. In order to ensure that each exam is consistent in terms of difficulty, the actual number of questions that are tested in each topic area will not always equate exactly to the rounded percentage weightings.**

## **Learning Outcomes**

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### **Unit I Introduction to Financial Services Environment and Products**

On completion of this part of the module, candidates will be expected to:

Demonstrate an understanding of:

- 1 the purpose and structure of the UK financial services industry
- 2 the main financial asset classes and their characteristics, covering past performance, risk and return
- 3 the main financial services product types and their functions
- 4 the main financial advice areas
- 5 the process of giving financial advice, including the importance of regular reviews of the consumer's circumstances
- 6 the basic legal concepts relevant to financial advice
- 7 the UK taxation and social security systems and how they affect personal financial circumstances
- 8 the impact of inflation, interest rate volatility and other relevant socio-economic factors on personal financial plans

## **Unit 2 UK Financial Services and Regulation**

On completion of this part of the module, candidates will be expected to:

Demonstrate a knowledge of:

- 1 the main aims and activities of the Financial Services Authority (FSA), and its approach to ethical conduct by firms and individuals
- 2 how other non-tax laws and regulations impact upon firms and the process of advising clients

Demonstrate an understanding of:

- 1 the FSA's approach to regulating firms and individuals
- 2 how the FSA's rules affect the control structures of firms and their relationship with the FSA
- 3 how the FSA's Conduct of Business rules apply to the process of advising clients/customers
- 4 how the Anti-Money Laundering regulations apply to dealings with clients/customers
- 5 the main features of the rules for dealing with complaints and compensation
- 6 how the Data Protection Act 1998 affects the provision of financial advice and the conduct of firms generally.

## Detailed Syllabus

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**Key:** K = Knowledge. U = Understanding. An = Analyse. As = Assess. A = Apply.

### Unit 1 Introduction to Financial Services Environment and Products

| <b>Attainment Level</b>          | <b>Outcome</b>   | <b>Indicative Content</b>   | <b>Approx. Weighting</b> |
|----------------------------------|--|---|--------------------------|
| Demonstrate an understanding of: | 1 The purpose and structure of the UK financial services industry  | U1.1 The function of the financial services industry in the economy – transferring funds between individuals, businesses and government – risk management | 10%                      |
|                                  |  | U1.2 The main institutions/organisations – markets, retail institutions, wholesale institutions   |                          |
|                                  |  | U1.3 The role of the EU and of the UK government – regulation, taxation, economic and monetary policy, provision of welfare and benefits                  |                          |
|                                  |  | U1.4 The purpose and position of clearing and settlement organisations  |                          |
|                                  | 2 The main financial asset classes and their characteristics, covering past performance, risk and return | U2.1 Cash deposits and money market instruments   | 10%                      |
|                                  |  | U2.2 Government securities and corporate bonds – fixed interest and index linked  |                          |
|                                  |  | U2.3 Equities   |                          |
|                                  |  | U2.4 Real estate – residential and commercial   |                          |
|                                  |  | U2.5 Commodities  |                          |
|                                  |  | U2.6 Foreign exchange   |                          |

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|       |   |  |
|-------|---|--|
| 3     | The main financial services product types and their functions   | <ul style="list-style-type: none"> <li>U3.1 Direct investment – cash, government securities and corporate bonds, equities and property, commercial money market instruments</li> <li>U3.2 Collective investments – structure, tax and charges – OEICs/unit trusts, investment trusts and companies, life assurance contracts, offshore funds</li> <li>U3.3 Derivatives – their structure and purpose 20%</li> <li>U3.4 Mortgages and other loans – personal and commercial</li> <li>U3.5 Pensions</li> <li>U3.6 Structured products</li> <li>U3.7 Protection products – life and general</li> </ul>  |
| <hr/> |   |  |
| 4     | The main financial advice areas   | <ul style="list-style-type: none"> <li>U4.1 Budgeting</li> <li>U4.2 Protection</li> <li>U4.3 Borrowing and debt</li> <li>U4.4 Investment and saving 10%</li> <li>U4.5 Retirement planning</li> <li>U4.6 Estate planning</li> <li>U4.7 Tax planning</li> </ul>  |
| <hr/> |   |  |
| 5     | The process of giving financial advice, including the importance of regular reviews of the consumer's circumstances | <ul style="list-style-type: none"> <li>U5.1 The nature of the client relationship, confidentiality, trust and consumer protection</li> <li>U5.2 The information required from consumers and methods of obtaining it</li> <li>U5.3 Factors determining how to match solutions with consumer needs and demands</li> <li>U5.4 How to assess affordability and suitability 10%</li> <li>U5.5 The importance of communication skills in giving advice and how to adapt advice to customers with different capacities and needs</li> <li>U5.6 The importance of monitoring and review of consumers' circumstances</li> <li>U5.7 Information for consumers and when it should be provided (outline only)</li> </ul> |

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|   |       |  |     |
|---|-------|--|-----|
| 6 The basic legal concepts relevant in financial advice   | U6.1  | Legal persons – individuals, wills, intestacy, personal representatives (and administration of estates), trustees, companies, limited liabilities, partnerships  |     |
|   | U6.2  | Contract, capacity to contract   | 15% |
|   | U6.3  | Agency   |     |
|   | U6.4  | Real estate, personal property and joint ownership   |     |
|   | U6.5  | Powers of attorney, enduring power of attorney and lasting power of attorney   |     |
|   | U6.6  | Insolvency and bankruptcy, Individual Voluntary Arrangements (IVAs)  |     |
| 7 The UK taxation and social security systems and how they affect personal financial circumstances                        | U7.1  | Concept of residency/domicile  |     |
|   | U7.2  | UK Income tax system – liability to income tax, allowances, reliefs, rates, grossing up interest and dividends, employed and self-employed income, priorities for taxing different classes of income, gift aid, Give As You Earn |     |
|   | U7.3  | Capital gains tax – liability to CGT, disposals, death, deductions, losses, main reliefs and exemptions, basic calculation of chargeable gains   | 20% |
|   | U7.4  | Inheritance tax – liability to IHT, main exemptions, basic calculation of IHT liabilities  |     |
|   | U7.5  | Corporation tax  |     |
|   | U7.6  | Stamp duty, land tax and stamp duty reserve tax on securities  |     |
|   | U7.7  | VAT and Insurance Premium Tax  |     |
|   | U7.8  | Withholding tax  |     |
|   | U7.9  | National insurance   |     |
|   | U7.10 | Social security benefits   |     |
| 8 The impact of inflation, interest rate volatility and other relevant socio-economic factors on personal financial plans | U8.1  | Definition of inflation  |     |
|   | U8.2  | The difference between fixed and variable interest rates and their impact  | 5%  |
|   | U8.3  | The impact of socio-economic factors and how they affect the affordability, suitability and performance of financial products in both the long and short term  |     |

## Unit 2 UK Financial Services and Regulation

| Attainment Level  | Outcome   | Indicative Content  | Approx. Weighting |
|---|---|---|-------------------|
| Demonstrate a knowledge of:   | 1 The main aims and activities of the Financial Services Authority (FSA) and its approach to ethical conduct by firms and individuals | K1.1 The FSA's statutory objectives, roles activities and powers  | 10%               |
|   |   | K1.2 The FSA's principles for businesses and approved persons – how they reflect the need for ethical behaviour by firms and approved persons, FSA guidance |                   |
|   |   | K1.3 The approach to, and requirements for, treating customers fairly   |                   |
|   |   | K1.4 Arrangements, systems and controls for senior managers   |                   |
|   |   | K1.5 The fit and proper test for approved persons   |                   |
|   |   | K1.6 The prevention of financial crime  |                   |
| 2 How other non-tax laws and regulations are relevant to firms and to the process of advising clients |   | K2.1 The Office of Fair Trading and the Consumer Credit legislation   | 10%               |
|   |   | K2.2 The Competition Commission   |                   |
|   |   | K2.3 The Pensions Regulator   |                   |
|   |   | K2.4 Unfair Contract Terms; Advertising Standards Authority; Banking Code   |                   |
|   |   | K2.5 EU directives – including MiFID  |                   |
| 3 The role of oversight groups  |   | K3.1 The role of internal and external auditors, trustees and compliance function   |                   |

*Introduction to CeFA® and CeMAP® Module 1*

|  |   |  |     |
|--|---|--|-----|
| Demonstrate an understanding of:   | 1 The FSA's approach to regulating firms and individuals  | U1.1 Authorisation of firms, regulated activities & regulated investments, firms' status |     |
|  |   | U1.2 Capital adequacy  | 10% |
|  |   | U1.3 FSA supervision and the risk based approach   |     |
|  |   | U1.4 Discipline and enforcement including notification requirements                      |     |
|  |   | <hr/>  |     |
| 2 How the FSA's rules affect the control structures of firms and their relationship with the FSA | U2.1 Approved persons and controlled functions  |  |     |
|  | U2.2 Reporting and record keeping   | 20%  |     |
|  | U2.3 Training and competence rules  |  |     |
| <hr/>  |   |  |     |
| 3 How the FSA's Conduct of Business Rules apply to the process of advising clients/ customers    | U3.1 Advertising and financial promotion rules  |  |     |
|  | U3.2 Types of client  |  |     |
|  | U3.3 Information about the firm's services, including client agreements   |  |     |
|  | U3.4 Status of advisers and status disclosure to customers, specific rules for independent financial advisers and whole of market advisers                          |  |     |
|  | U3.5 Identifying client circumstances and needs   |  |     |
|  | U3.6 Suitability of advice  |  |     |
|  | U3.7 Execution only, non-advised sales, and statements of demands and needs   | 30%  |     |
|  | U3.8 Charges and commissions  |  |     |
|  | U3.9 Cooling off and cancellation   |  |     |
|  | U3.10 Product disclosure and risk disclosure statements   |  |     |
|  | U3.11 Simplified advice on the stakeholder suite of products  |  |     |
|  | U3.12 Regulatory rules for mortgage advice (MCOB) – status disclosure, initial disclosure document, charges, suitability, product disclosure, cancellation          |  |     |
|  | U3.13 Regulatory rules for general insurance advice (ICOB) – status disclosure, initial disclosure document, charges, suitability, product disclosure, cancellation |  |     |

*UK financial regulation*

|                                  |   |  |  |   |     |
|----------------------------------|---|--|--|---|-----|
| Demonstrate an understanding of: | 4   | How the Anti-Money Laundering regulations apply to dealings with clients/customers | U4.1   | Definition of financial crime and proceeds of crime   | 10% |
|                                  |   |  | U4.2   | Money laundering regulations and offences, the Terrorism Act 2000, Proceeds of Crime Act 2002 |     |
|                                  |   |  | U4.3   | Client identification procedures  |     |
|                                  |   |  | U4.4   | Record keeping requirements   |     |
|                                  |   |  | U4.5   | Reporting procedures  |     |
|                                  |   |  | U4.6   | Training requirements   |     |
|                                  |   |  | U4.7   | Enforcement   |     |
|                                  |   |  | U4.8   | The role of the Financial Action Task Force and the Serious Organised Crime Agency (SOCA)     |     |
| 5                                | The main features of the rules for dealing with complaints and compensation                                   | U5.1   | Consumer rights and remedies, including awareness of their limitations | 5%  |     |
|                                  |   | U5.2   | Firms' internal complaints procedures                                  |   |     |
|                                  |   | U5.3   | The Financial Ombudsman Service (FOS)                                  |   |     |
|                                  |   | U5.4   | The Financial Services Compensation Scheme (FSCS)                      |   |     |
| 6                                | How the Data Protection Act 1998 affects the provision of financial advice and the conduct of firms generally | U6.1   | Definitions in the Data Protection Act                                 | 5%  |     |
|                                  |   | U6.2   | The data protection principles   |   |     |
|                                  |   | U6.3   | Enforcement of the Data Protection Act                                 |   |     |